

Questioning the need for a European safe asset and the euro's ability to gain global importance by issuing more joint debt

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September 2025

INTRODUCTION

This article addresses the discussion in the Financial Times on how the euro can gain more of a reserve currency status. In mid-June 2025, Christine Lagarde, president of the European Central Bank, suggested that “[This is Europe’s global euro moment](#)” and it should increase the euro’s global status”. It would bring tangible benefits: lower borrowing costs, reduced exposure to currency fluctuations, and insulation from sanctions and coercive measures.” In short, Lagarde argues that there are several benefits to having a reserve currency status, and that the EU should pursue that goal for the euro. However, for this to happen, Europe must enhance its geopolitical credibility, economic resilience and legal and institutional integrity. The ECB has already extended its swap and repo lines to key partners to safeguard against liquidity shortages abroad, as the euro is a major invoicing currency and the EU is the world’s largest trader, according to Lagarde.

Lagarde also notes that the supply of high-quality assets in Europe lags behind the United States. In the US, government debt amounts to 124 per cent of GDP, while the figure in the EU is only 89 per cent. Additionally, all US government debt is rated AA or higher, whereas in the EU only 50 per cent of public debt holds a rating of AA or above. She argues that joint financing of public goods in the EU could create more safe assets.

Of course, the EU must also address its persistently low growth, fragmented capital market, incomplete single market, regulatory burdens, and support for its strategic industries, Lagarde adds.

Building on this article, [Martin Sandbu](#), a commentator in the Financial Times, writes that EU leaders should make the most of this “moment of truth” and address the question of

commonly issued debt (supra-national EU-debt). He bases his arguments on the proposal from Blanchard and Ubide (2025), to build a European financial system that can compete with that of the US. The EU, therefore, needs to create a deep and liquid Eurobond market. This can be achieved by bundling Member States national government bonds into Eurobonds¹. They argue that Eurobonds could reduce the cost of funding European public debt and even increase the attractiveness of private investments in Europe.

This short article looks at advantages and disadvantages of commonly issued debt, at the supra-national EU-level. It also discusses whether supra-national EU-debt can help the euro becoming a global reserve currency. It concludes that it is still a long way to go before the “euro becomes global”. Likewise, it is difficult to argue that more joint debt would be a meaningful step toward reaching that objective. Decreased borrowing costs could lead to higher levels of debt – especially today, when spending on defence is financed by debt. There is a risk that debt become too large to handle and ends up being a “not so safe asset”. The arguments for deepening the financial market in the EU through a safe asset are, nevertheless, worth considering.

WHAT IS A SAFE ASSET AND IS THERE A SHORTAGE?

The modern financial system is fundamentally dependent on the availability of safe assets, as emphasised by Brunnermeier et al. (2016). Central banks utilise these instruments to execute monetary policy, while private banks rely on them as collateral for lending and investment activities. Safe assets play a crucial role in maintaining stability within the banking sector during periods of financial turbulence.

Defining a safe asset, however, remains complex. As highlighted by Caballer et. al. (2017), absolute safety cannot be guaranteed, and perceptions of safety often vary among investors. Nonetheless in narrow terms, a safe asset is a simple debt instrument that is expected to hold its value during adverse events, such as financial stress or crisis. These assets should be readily tradable without requiring significant analysis or concern. Reputation and historical performance are key factors influencing beliefs about asset safety, and the collective judgement of market participants further shapes which instruments are regarded as safe.

¹Referring to these bonds as Eurobonds is very miss-leading – every bond denominated in euro is a Eurobond and here we discuss bonds containing public EU-debt. Brunnermeier et. al (2016) proposed ESBies (European Safe Bonds), Delpa and Weizsäcker (2010) wrote about Blue and Red bonds and Monti (2010) suggested E-bonds. All these proposed types of bonds have different properties but over-all they would be made up by joint EU debt, one way or the other. However, for the sake of consistency we continue to refer to the suggested instrument for joint borrowing as Eurobonds in this article.

Over the past fifty years, the issuance of safe assets has predominantly occurred in a limited number of advanced economies, led by the United States, Japan and Germany (Caballero et. al.). These countries are characterised by robust financial infrastructures, credible fiscal policies, and stable price and exchange rates. During recent decades, the growth rate of these economies and their part of the world economy has declined compared to high-growth and high-saving emerging economies. This has led to a shortage of all types of assets, which Bernanke (2005) called the savings glut².

After 20 years, Isabel Schnabel (2025), Member of the Executive Board at the ECB stated in a speech, that the world is transitioning from the “savings glut” to a “[global bond glut](#)”. This shift is reflected in the narrowing spreads of government bonds to AAA-rated corporate bonds over recent years. This development may be attributed to a greater supply of government bonds, with supply expected to continue rising as increased defence spending is largely financed through debt and central banks are in the process of normalising their balance sheets³. According to Schnabel, the savings glut appears to have shifted into a global bond glut, suggesting that the shortage of safe assets is decreasing.

Despite Schnabel’s findings, many European economists advocate that there is a need for a European safe asset⁴. According to Blanchard and Ubide, investors are looking for alternatives to the US Treasury market. And, Monti points out: “The EU needs a modern and developed financial system, built around a liquid risk-free asset class, which - being the benchmark for pricing other assets - would provide the basis for efficiently performing the essential functions of allocating resources, intermediating savings to investment, supporting better risk sharing and ensuring a more uniform transmission of the single monetary policy across the euro area.” (p. 61-62)

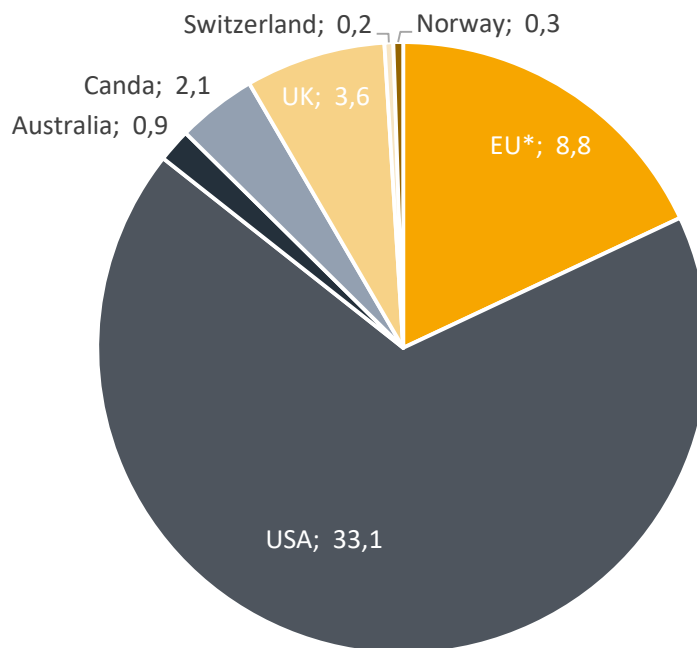
Current data indicates that the outstanding volume of sovereign debt rated AA or higher in the US exceeds that of the EU by more than threefold.

² After the financial crisis of the late 1990’s and beginning of the 2000’s developing economies built up larger foreign exchange reserves to make themselves more resilient in future financial turbulences. Even Germany, Japan as well as many oil-exporting countries have large savings in safe assets.

³ During the financial crisis and the pandemic, central banks undertook large-scale asset purchase programmes to stimulate the economy. This has dramatically increased the balance sheets of many central banks.

⁴ See Bletzinger et.al. (2022) for example.

FIGURE 1, OUTSTANDING SOVEREIGN BONDS, RATED AA OR ABOVE, TRILLION USD, 2024



Source: IMF, Sovereign Investor Base Dataset through Macrobond⁵. *) EU sovereign debt rated AA or above.

According to Lane (2025), the German bund is considered the highest rated large-country sovereign bond among euro area states. However, Grossé and Mourjane (2021) note that its supply is small relative to the overall size of the euro area. They report that AAA and AA-rated sovereign bonds in the euro area account for 37 per cent of GDP, compared to 89 per cent in the United States. Angeletos et al. (2013) suggest that government bonds can function as collateral to support private liquidity and may serve a monetary role. Angeletos et al. (2021) further highlight the trade-off between the size of public debt and the need for collateral in the economy. Excessive debt levels can increase risk premiums, raise interest costs, pose financial stability risks, and necessitate higher taxes. Therefore, determining the optimal level of debt involves balancing the demand for collateral (safe assets) with maintaining sustainable public debt that avoids negative economic consequences.

In conclusion there seems to be a shortage of safe assets in the EU, but this is not due to a shortage of government bonds denominated in euro. It is rather that the debt-levels are too high in many Member States for their government bonds to be considered a safe asset for investors.

⁵ This dataset includes foreign investors and domestic investors holdings of sovereign debt. This dataset can be used to understand who owns sovereign debt. But here it gives us information of exactly how much sovereign debt is on the capital market.

PROPOSALS OF HOW TO CONSTRUCT EUROPEAN SAFE BONDS

The key proposals for a European safe bond have been presented since the financial crises is by: Monti (2010), Delpa and von Weizsäcker (2010), Brunnermeier et al. (2016), and Blanchard and Ubide (2025). The basic idea is to create a safe asset at the EU-level where a share of Member States national government debt can be “exchanged” for Supranational EU-debt. The concept involves exchanging a portion of national government debt for EU-level debt to create a safe asset - Monti suggesting that up to 40 per cent of GDP could be replaced by E-bonds for example. This approach would increase fiscal integration and require Member States to give up some fiscal sovereignty.

Delpa and von Weizsäcker suggest that the EU jointly issue Blue bonds for national debts up to 60 per cent of GDP. And that excess debt above this threshold is handled by each Member State through Red bonds. They also recommend creating a European debt agency to oversee issuance and monitoring.

Brunnermeier et.al. advocate for the creation of a synthetic bond where a European debt agency would assemble a portfolio of Member States’ national government bonds and issue it to the market. The proposed portfolio of European Safe Bonds (ESBies) would consist of two tranches: a secure tranche comprising 70 per cent and a junior tranche covering the first losses at 30 per cent. This structure is intended to reduce the direct connection between individual Member States’ fiscal risks and those of the ESBies. Each country would remain responsible for its own debt, avoiding the formation of a “debt union.” According to Brunnermeier et al., this approach could mitigate the so-called doom loop⁶. The issuer would be a special purpose vehicle, eliminating the need for shared budget control among Member States.

Blanchard and Ubide propose that each Member State should be able to exchange an amount or debt-level of national bonds for EU-bonds. They admit that it is difficult to decide what proportion of Eurobonds should replace national bonds. The portfolio must be large enough to make an impression on the market, and it must be small enough to maintain the status of a safe asset. They recommend that 25 per cent of GDP would be enough to create a safe asset in the euro area. That would amount to almost 5 trillion EUR, if you include the whole EU (including all ratings and non-euro area countries). A European Stability fund would issue these bonds, with Member States borrowing from it and earmarking national budget revenue for EU-debt interest payments.

⁶ The doom-loop or the sovereign-bank nexus, describes how government indebtedness and banks holding of national debt can lead to banking and fiscal crisis, see Alogoskoufis and Langfield (2019).

European safe bond proposals like ESBies, Blue bonds, and Blanchard & Ubide's Eurobonds differ from European Commission bonds used for SURE⁷ and the Recovery and Resilience Facility. As they lead to limited risk-sharing among Member States and maintain national responsibility for debt, unlike the current Recovery and Resilience Facility or Monti's proposal that imply joint responsibility for the debt.

ADVANTAGES AND DISADVANTAGES OF SUPRANTIONAL EU-BONDS

European safe asset could boost financial stability, aid integration, and lower borrowing costs for EU Member States (Grossé and Mourjane, 2021). Joint borrowing through SURE and Recovery and Resilience Facility helped stabilise EU economies during Covid-19 lockdowns. The euro-area finally started to recover from the euro-crisis when Draghi, President of the ECB, spoke the famous words: "...the ECB is ready to do whatever it takes to preserve the euro." (Mario Draghi, 26 July 2012).

So far, joint EU actions have proven to calm down crises' situations, but also to create them. Fiscal turbulence in of one Member States can affect the credit rating in other Member States (De Santis, 2012). Back in 2011, Greece's difficulties in refinancing government debt contributed to the downgrade of Portuguese government bonds before Portugal even showed signs of having refinancing difficulties. Additionally, some smaller countries, such as the Netherlands and Austria, also experienced downgrades despite strong economic positions, due to the turbulence in southern Europe. Hence, Member States' credit ratings seem to be affecting each other's and therefore it could be a natural step to issue joint supranational bonds in the EU.

The EU-bonds issued as a remedy of the Covid-19 lock-downs, currently hold a AAA-rating. This is because they are guaranteed by the EU-budget, which is backed up by sound economies like Germany, Denmark, and Sweden (Leonhard, 2021). A large issuer of debt may be considered safer as more countries are able to back up liabilities. On the other hand, the connection may lower the rating of well managed countries and increase risks within the region if some members are considered risky (see the box below on how this works in the US).

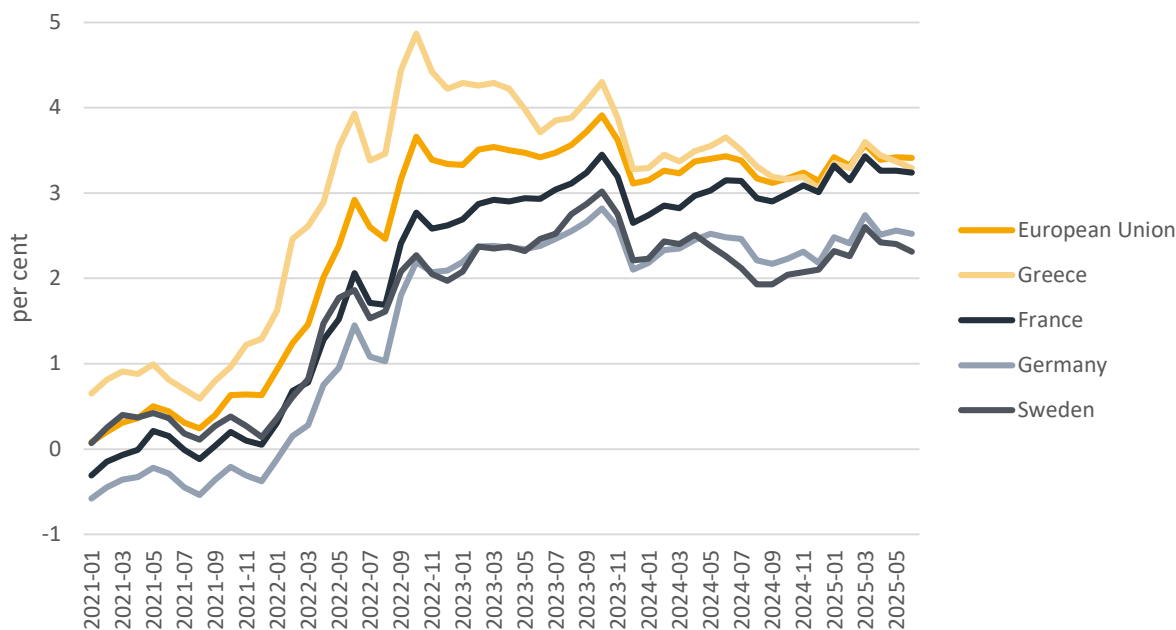
⁷ Temporary Support to mitigate Unemployment Risks in an Emergency.

American Outlook, how does Federal State debt affect US debt, compared to Member State debt and EU-supranational debt?

The credit ratings of the US treasuries have been not directly affected by the public finances of individual Federal States in the past. So why should public finances of individual EU Member States matter for the stability of joint EU debt? One important factor concerns size. Federal States are more equal in population and economic size compared to EU's Member States. Hence, a fiscal crisis in a smaller US state does not pose a systemic threat. Secondly, Federal States are not legally permitted to file for bankruptcy. If they get into trouble, public spending must be cut and taxes increased to reach fiscal balance (this a legal requirement in most Federal States). For example, during the financial crisis California got into fiscal problems and the credit rating fell to junk-bond status. Yet, the US treasuries' rating stayed at AAA, investors even shifted capital into treasuries, perceiving them as a "safe haven". In contrast, the euro area entered a sovereign debt crisis during the same period, highlighting structural vulnerabilities in the EU's fiscal architecture. While deeper integration may eventually reduce these asymmetries due to the different sizes of Member States, as long as fiscal discipline remains uneven across Member States, trust in the stability of the Union's financial system is likely to remain fragile.

When comparing the yields of outstanding EU bonds with those issued by individual Member States, borrowing at the EU level does not provide a financial advantage for all members.

FIGURE 2, BORROWING COSTS FOR DIFFERENT MEMBER STATES AND THE EU (INTEREST RATES, ALL MATURITIES)



Source: Eurostat.

Despite the eager interest for investors to buy the EU-bonds the interest rates have been higher than Sweden's and Germany's for the most part. Making the EU-bond less appealing as a borrowing vehicle for sound EU-economies, even though EU-bonds are AAA rated. Johnston and McDougall (2023) attribute this to the limited supply and low liquidity of EU-bonds, which are often excluded from major sovereign bond indices. The European Commission plans to issue 900 billion euro⁸ by 2026 and begin repayment in 2028, which could increase tradability and potentially lower interest rates. However, 900 bn euro is far from the 5 trillion euro that Blanchard and Ubide would like to see.

The draw-back of joint borrowing is that it may lead to less responsible fiscal policy at Member State level if it reduces borrowing costs. The risk of getting higher borrowing costs normally limits and penalises excessive borrowing. If this cost is lowered because of joint borrowing schemes it may lead to increased debt⁹. High levels of debt can become burdensome when there are economic crises or severe downturns. Mian et. al. (2020) argue that economies can get stuck in a debt-driven liquidity trap. This happens when debt is used to push demand at the expense of indebted demand in the future.

To sum up, there are advantages of creating a European safe asset such as possible lower borrowing costs and a deeper financial market. But the current joint debt has not led to

⁸ This can be compared to Sweden's outstanding debt which is 170 billion euro, Belgium's 570 and the Netherland's 440 billion.

⁹ Looking at the lowered interest rates after Member States joined the EMU at the start of the 2000's for example.

lowered borrowing costs despite its AAA-rating. And should borrowing costs decrease, there is a risk that debt levels will get even higher.

WHAT DOES IT TAKE TO BECOME A RESERVE CURRENCY?

The idea that a supernational EU-debt instruments could help "the euro take the dollar's crown," as Sandbu and others suggest, hinges on whether common debt can foster a European financial system able to rival the US's. Blanchard and Ubide believe a common European safe asset might attract global investment and spur private sector investment in Europe, but this idea can be challenged¹⁰. And would more joint debt lead to a reserve currency status of the euro?

The EU Member States have significant debt, with many euro-denominated sovereign bonds on the market as Isabel Schabel also recognised. Thus, a shortage of euro safe assets would be due to a shortage of trust and belief that Member States' government bonds are not considered a safe asset.

Turning to the classic theory of reserve currencies show that countries typically hold certain currencies as reserves due to political strategy or trade and financial ties (Eichengreen et al. 2017 and Schwarz 2024). The US dollar has served this role for almost a century, lowering US borrowing costs. Eichengreen et al. attribute the dollar's status mainly to US's military power and its security assurances to allies¹¹. In addition, the US is also the biggest economy in the world and has the most developed financial market.

Even though total trade accounts for a smaller part of the US's economy as a share of GDP it is by far the world's largest trading partner¹². Looking at the sum of all traded goods and services, the US's exports and imports amount to 7 300 bn US dollar, where as China's amount to 3 700 bn US dollar and Germany's to 4 100bn US dollar in 2024 according to the World Trade Organization¹³. However, the US's trade deficits and hence its balance of payments stands out as can be seen below.

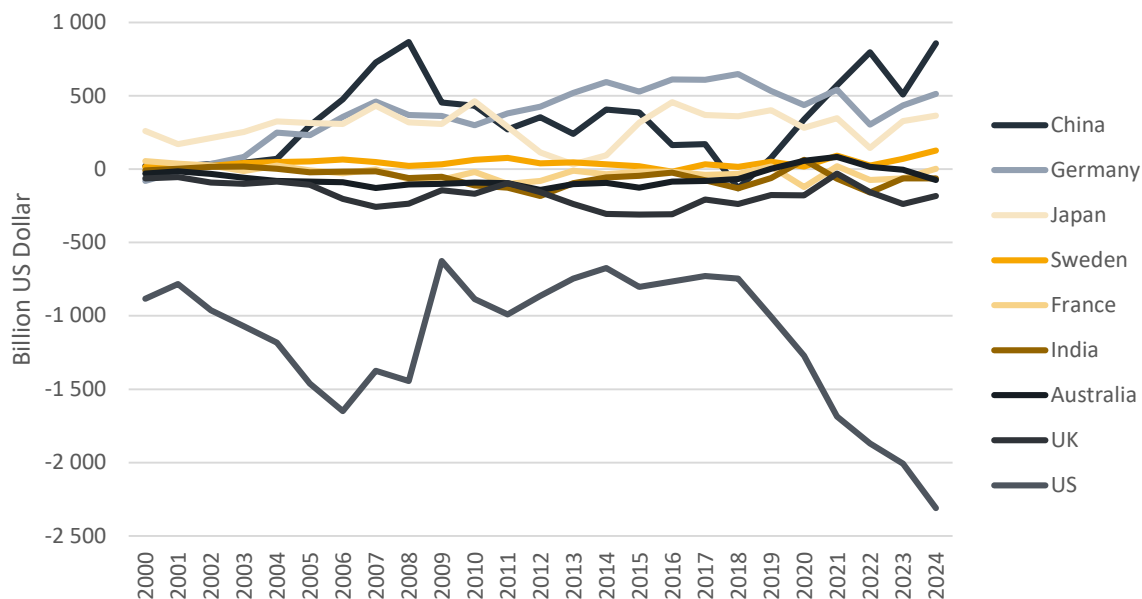
¹⁰ Rather than to rely on global investors' spill-over effects, the EU Member States should themselves incentivise households to start investing instead of keeping savings at banks deposits. A deep and efficient financial market that satisfy business and creates competitiveness, needs and trust is built from the ground up not the other way around.

¹¹ Should the US lose this status in Eichengreen's set scenario, 5 per cent of US marketable debt would be invested in other currencies.

¹² Over the past decade, international trade has accounted for around 27 per cent of GDP in the US. In Germany international trade accounts for 79 per cent of GDP and in Sweden 91 per cent, according to statistics from the World Bank.

¹³ Total trade with the euro-area amounts to almost 16 000 bn dollars. But this number cannot be compared to those above as it also includes trade within the euro-area. Unfortunately, there is no comparable statics easily accessible. However, Lagarde claims that the euro is the largest invoicing currency, and this may very well be true.

FIGURE 3, BALANCE OF PAYMENT



Source: IMF, through Macrobond.

This is nothing new, the US has had negative balance of payments for as long back as IMF's data reaches i.e. 1970. This means that US's negative balance of payments spreads US dollars around the globe (Dornbusch et.al. 1998). And it seems that the reserve currency status enables the US to have a constant negative balance of payment. Whereas surplus countries like Germany or China, cannot spread their currency across the globe as their surplus must be met by holding foreign exchange. In other words, countries import dollars as they export goods to the US, this will accumulate dollar-nominated liabilities and assets which will anchor the countries' financial system. Ilzetki et. al. (2017), have found that 70 per cent of the world's GDP was tied to some form and degree to the US dollar, whereas the US's share of world GDP was 18 per cent. Schwarz (2024) states that preferences can change, and investors could start to use other currencies. Accordingly, the US dollar's centrality is given by investors' choice to use dollars.

Furthermore, there are benefits of using a single currency when pricing complex global commodity chains, oil and other commodities, writes Schwartz. The US was for a long time a dominating oil producer and set the price in dollar and until this day, the oil price is set in US dollar. In recent years, this has been contested by China, Russia and India. But apart from China getting some Gulf exporters to price their oil exports to China in renminbi to stabilise costs, all attempts to change prices from dollars have failed. However, just recently this it seems that the Asian economies dis-use of dollar for pricing oil has, in fact, decreased their need to hold reserves in the US bond market. This has led to a rise in US government bond interest rates (Gave, 2025). And the erratic Trump politics makes US treasuries less and less attractive.

In conclusion, the vast economic and financial ties to the US dollar, makes it is questionable whether a currency of a country or region such as the EU or China, with large balance of payment surpluses, easily can take the role of the US dollar. Despite this, the use of US dollars and the interest in US treasuries seem to slowly decrease. This development could lead to the start of a new world order, looking how Russia, China, North Korea and India seem to grow closer.

CONCLUDING DISCUSSION

This short article presents evidence suggesting that a European safe asset could contribute to deepening the financial market in Europe as there is a positive correlation between safe assets and private capital investments. However, more supra national EU-debt will not automatically create a safe asset.

Public debt of large trustworthy economies is normally seen as a safe asset. Should however, debt become too large, and should investors judge it as unsustainable, there is no safe asset anymore. Lately, French government bond interest rates have risen as France struggles to agree on a balanced government budget after running government deficits for many years. Having two large economies such as Italy and France with high levels of debt may not seem sustainable to investors and do not bode well for the creation of a European safe asset. Bundling good debt with bad debt was the toxic cocktail that led to the global financial crisis and in the case of joint European supranational debt, one might question how much safety Germany can guarantee?

Looking at the supply of safe assets in Europe this article finds that there is an abundance of Member States' government bonds denominated in euro, but those that are considered safe, seem be in short supply. Should Member States achieve better fiscal discipline and reduce debt-levels, a joint borrowing scheme like the one Brunnermerier et. al. propose, could give the EU benefits. But the current set up of SURE, the Recovery and Resilience Facility as well as the proposal by Blanchard and Ubide will probably bring the EU economy more disadvantages than advantages. Debt risks becoming larger if borrowing costs would decrease. There has been a lack of consistent fiscal discipline in many Member States, debt in the euro area reaches far beyond the agreed 60 per cent of GDP as it is.

The second question of this article was whether more European safe assets can help the euro to take the dollar's place as the world's reserve currency? The answer is no, as it takes more than having a safe asset to become a reserve currency area, as Christine Lagarde herself points out. EU struggles with persistent low growth, years of underinvestment in defence, over-regulation and fragmented markets. At the same time, the US's constant and large balance of payment deficit automatically spreads dollars around the globe. In addition, the

US is still the largest military force in the world as well as the largest economy. It dominates the financial markets and oil prices are set in dollar. Still, some Asian countries have been able to price oil in their own currency their need to hold US sovereign bonds has decreased so the US position may be weakening. However, taking over the status of the US dollar means that the EU must change and prove itself in many areas. It must gain investors' trust and find ways for the euro to be spread around the globe.

The US dollar's global dominance may be declining but creating a joint EU super-sovereign bond is not likely to make the euro global.

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